

Baker Market Update: Week in Preview

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



Investors are greeting the new week with optimism and high hopes with the news over the weekend that access to antibody plasma treatments may be expanded while vaccine development efforts may gain a regulatory fast-track to approval. Good news for all, with equity investors particularly pleased. In early trading, the DJIA has opened triple-digits higher while the Treasury market has slipped a few ticks here and there with the Ten-Year's yield little-changed at 63 basis points.

It's a pretty big news week, but the only scheduled data release for today has already been released. Earlier this morning, the Chicago Fed reported that its National Activity Index fell further than expected to just 1.18 in July after June's reading of 4.11 was upwardly revised to 5.33. We've seen recent slippage in other, broad measurements of economic activity like the dip in last week's Outlook Survey from the Philly Fed as the effects of the summer's second wave hits the data.

A lot of data will be hitting investors' radars tomorrow beginning with the FHFA House Price Index for June where a gain of 0.3% is expected. More housing news will be reported when Case-Shiller CoreLogic releases new stats for June which, among other things, is expected to show that its 20-City House Price Index has grown at a 3.6% year-over-year pace. Also on Tuesday, the Conference Board is expected to report that its Consumer Confidence Index improved slightly this month to 93 from 92.6. Feelings matter and there's a lot riding on how consumers are feeling these days and especially on how they're feeling about the days to come. How consumers are feeling about buying new houses will be a little bit better understood when the Census Bureau reports New Home Sales for July, also on Tuesday. The Bureau's report is only expected to show a relatively small rise of 2%, but don't forget how last week's Existing Home Sales blew the forecasts out of the water with a gain of almost 25%. We'll see if New Homes are moving as well as old ones. The Richmond Fed will close out that day's announcements with the news that its Manufacturing Index probably remained unchanged this month at July's level of 10. Most of these regional Fed measurements have been disappointing of late, so anything that's not losing ground can probably be considered good news.

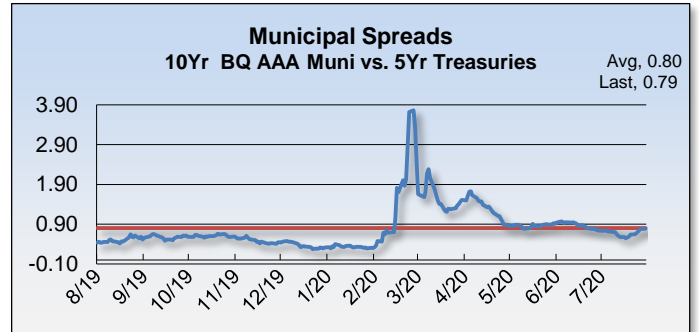
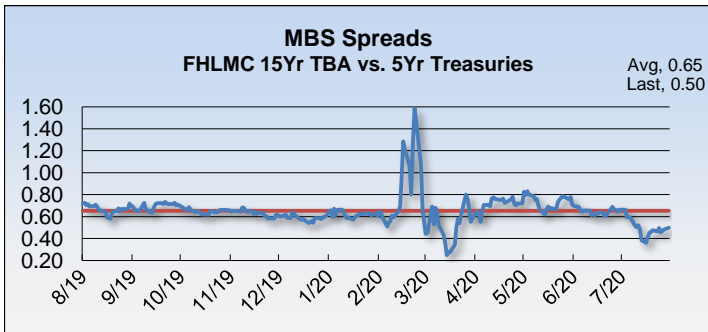
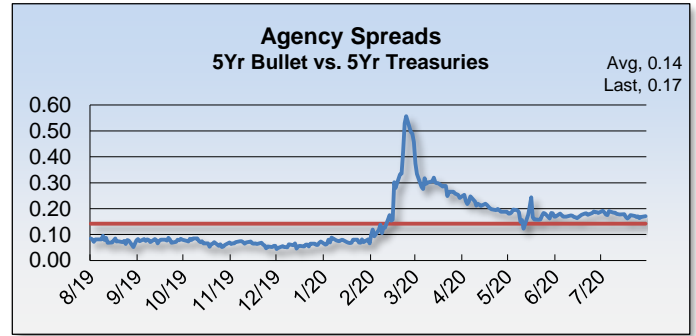
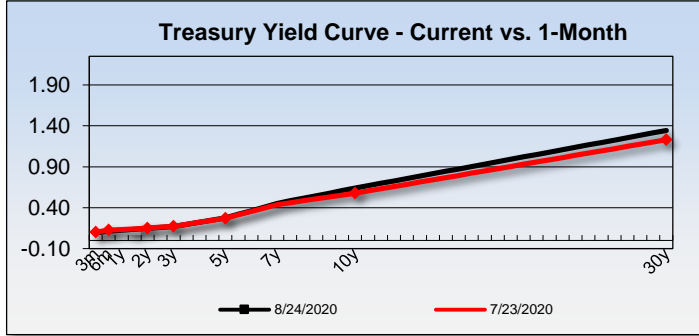
Wednesday is expected to bring some preliminary capex reports with the news that Durable Goods Orders in July rose 4.5%, down from June's 7.6% while "core" Capital Goods orders rose just 1.7%, half of June's growth.

Thursday will bring the second estimate of Q2 GDP, and for those trying really hard to make lemonade, the first estimate of a 32.9% nosedive is expected to be revised to just a 32.5% nosedive. See, things aren't so bad. But, Personal Consumption was likely just as bad with no revisions expected in that 34.6% Q2 plunge. Deflation watchers may also take note that the 1.1% quarter-over-quarter plunge in core PCE will likely be affirmed.

On Thursday, the unwanted affirmation that some people are still losing their jobs will come our way with the BLS announcement that, for the week ending August 22nd, another 1M of those people filed for Initial Jobless Claims. The prior week's count of 1.1M was an upside surprise that nobody wanted and we'll all be hoping we don't get another one. For a little historical perspective, data going back to 1949 shows us that our economy has never exited a recession without Initial Claims first falling below 600k. Meanwhile, Continuing Claims for the week ending August 15th are expected to show a slight decline to 14.45M from 14.84M. Also on that day, we should be getting news that Pending Home Sales rose 2% in July; quite a comedown from June's 16.6% burst. And, the Kansas City Fed may buck the trend of some of its sister branches with a report showing that its Manufacturing Index got a boost to 5 this month; up from July's level of 3.

Friday is expected to begin with the disquieting news that Personal Income fell 0.4% in July following June's 1.1% decline while Personal Spending grew 1.5% in a slowdown from June's 5.6% pace. Inflation-adjusted Real Personal Spending should show growth last month of 1.6% in a similar fall from the prior month's 5.2% jump. Forecasters are expecting a mini-jump in price levels and we'll see if that's true when a new report for July's Personal Consumption Expenditures Index may show that headline PCE rose 0.4% last month. If so, that would take the year-over-year rate to 1% and that's up from June's 0.8%. Without food and energy, core PCE is anticipated to notch a half-per-cent monthly jump taking the year-over-year core rate to 1.2% from 0.9%. Consumers may not be too crazy about rising prices, but Jerome will feel better.

We'll close out the week with another measure of how consumers are feeling when the University of Michigan, who will not be playing football this fall, is expected to announce that its Wolverine Index of Consumer Sentiment was just treading water this month and remains at 72.8. That may not sound very encouraging to some, but if you've ever seen a wolverine trying to tread water, it's harder than it looks. Meanwhile, equities are very green this morning because, well, those markets, unlike the noble wolverine, are untethered to reality. Have a great week; be careful out there.



Treasury Market -- Historical						Fixed Rate Market										
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.09	(0.00)	0.11	1.54	1.96	2yr	0.20	0.21	0.20	0.21	0.23	2Yr	0.21	0.23	0.22	-
6mo	0.11	0.00	0.13	1.47	1.87	3yr	0.28	0.22	0.21	0.22	0.33	3Yr	0.31	0.33	0.30	0.28
1yr	0.12	(0.00)	0.14	1.35	1.73	5yr	0.45	0.30	0.32	0.34	0.52	5Yr	0.52	0.56	0.57	0.54
2yr	0.15	(0.00)	0.15	1.25	1.53	7yr	0.63	0.43	0.60	0.64	0.78	7Yr	0.73	0.77	0.79	0.77
3yr	0.17	(0.01)	0.17	1.20	1.50	10yr	0.98	0.61	1.02	1.09	1.20	10Yr	1.03	1.07	1.09	1.08
5yr	0.27	(0.02)	0.28	1.21	1.42	15yr	1.33	0.80	1.50	1.59	1.73	September TBA MBS				
7yr	0.45	(0.03)	0.44	1.29	1.48	20yr	1.68	0.89	1.78	1.89	2.25	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.64	(0.05)	0.59	1.37	1.54	25yr	2.04	0.93	1.91	2.03	2.31	2.00	0.95	3.9y	1.34	
30yr	1.34	(0.09)	1.23	1.84	2.03	30yr		0.94	2.04	2.18	2.36	2.50	0.98	3.4y		
												3.00	1.20	2.9y	0.73	2.5y
												3.50	1.11	2.4y	0.75	2.1y
												4.00			0.66	2.1y
												4.50			1.07	2.5y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	1.75	2.25
Primary Discount	0.25	--	0.25	2.25	2.75
2ndary Discount	0.75	--	0.75	2.75	3.25
Prime Rate	3.25	--	3.25	4.75	5.25
Sec. O.N. Finance	0.07	(0.02)	0.11	1.58	--
1 Month LIBOR	0.18	0.02	0.18	1.63	2.17
3 Month LIBOR	0.25	(0.02)	0.26	1.68	2.15
6 Month LIBOR	0.31	(0.02)	0.34	1.67	2.03
1 Year LIBOR	0.44	(0.02)	0.46	1.73	1.95
6 Month CD	0.27	0.06	0.37	1.55	1.99
1 Year CMT	0.13	--	0.15	1.43	1.77
REPO O/N	0.10	(0.03)	0.14	1.60	2.15
REPO 1Wk	0.09	--	0.09	1.59	2.17
CoF Federal	1.158	--	1.224	1.955	2.297
11th D. CoF (Jun)	0.682	--	0.755	1.036	1.141

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.28	0.40	0.41
6mo	0.28	0.41	0.44
1yr	0.33	0.34	0.48
2yr	0.37	0.55	0.53
3yr	0.42	0.61	0.64
4yr	0.50	0.71	0.73
5yr	0.59	0.81	0.80
7yr	0.87	1.12	1.02
10yr	1.17	1.45	1.33
5yr Am	0.47		0.78
10yr Am	0.85		1.16

Fed Fund Futures	
Maturity	Rate
Aug-20	0.095
Sep-20	0.075
Oct-20	0.070
Nov-20	0.065
Dec-20	0.065
Jan-21	0.055
Feb-21	0.050
Mar-21	0.040
Apr-21	0.040
May-21	0.035
Jun-21	0.030

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
8/24	Chicago Fed Nat Activity Index	Jul	3.70	1.18	4.11	5.33
8/25	House Price Purchase Index QoQ	2Q	--	--	1.7%	--
8/25	FHFA House Price Index MoM	Jun	0.3%	--	-0.3%	--
8/25	S&P CoreLogic CS 20-City YoY NSA	Jun	3.60%	--	3.69%	--
8/25	S&P CoreLogic CS US HPI YoY NSA	Jun	--	--	4.46%	--
8/25	Conf. Board Consumer Confidence	Aug	93.0	--	92.6	--
8/25	Conf. Board Present Situation	Aug	--	--	94.2	--
8/25	New Home Sales	Jul	790k	--	776k	--
8/25	Conf. Board Expectations	Aug	--	--	91.5	--
8/25	Richmond Fed Manuf. Index	Aug	10	--	10	--
8/26	MBA Mortgage Applications	8/21	--	--	-3.3%	--
8/26	Durables Ex Transportation	Jul P	2.0%	--	3.6%	--
8/26	Cap Goods Ship Nondef Ex Air	Jul P	2.0%	--	3.3%	--
8/27	GDP Annualized QoQ	2Q S	-32.5%	--	-32.9%	--
8/27	Personal Consumption	2Q S	-34.6%	--	-34.6%	--
8/27	GDP Price Index	2Q S	-1.8%	--	-1.8%	--
8/27	Core PCE QoQ	2Q S	-1.1%	--	-1.1%	--
8/27	Initial Jobless Claims	8/22	1000k	--	1106k	--
8/27	Continuing Claims	8/15	14450k	--	14844k	--
8/27	Pending Home Sales NSA YoY	Jul	--	--	12.7%	--
8/28	Personal Income	Jul	-0.3%	--	-1.1%	--
8/28	Advance Goods Trade Balance	Jul	-\$72.0b	--	-\$70.6b	--
8/28	Real Personal Spending	Jul	1.6%	--	5.2%	--
8/28	PCE Deflator YoY	Jul	1.0%	--	0.8%	--
8/28	PCE Core Deflator YoY	Jul	1.2%	--	0.9%	--
8/28	MNI Chicago PMI	Aug	52.5	--	51.9	--
8/28	U. of Mich. Sentiment	Aug F	72.8	--	72.8	--
8/28	U. of Mich. Current Conditions	Aug F	--	--	82.5	--
8/28	U. of Mich. 1 Yr Inflation	Aug F	--	--	3.0%	--
9/1	Markit US Manufacturing PMI	Aug F	--	--	53.6	--
9/1	ISM Manufacturing	Aug	54.5	--	54.2	--
9/1	ISM New Orders	Aug	--	--	61.5	--
9/1	ISM Prices Paid	Aug	--	--	53.2	--
9/1	ISM Employment	Aug	--	--	44.3	--
9/2	ADP Employment Change	Aug	1250k	--	167k	--
9/3	Challenger Job Cuts YoY	Aug	--	--	576.1%	--
9/3	Nonfarm Productivity	2Q F	7.3%	--	7.3%	--
9/3	Unit Labor Costs	2Q F	12.2%	--	12.2%	--
9/3	Markit US Services PMI	Aug F	--	--	54.8	--
9/3	Markit US Composite PMI	Aug F	--	--	54.7	--
9/3	ISM Services Index	Aug	57.5	--	58.1	--
9/4	Change in Nonfarm Payrolls	Aug	1600k	--	1763k	--
9/4	Two-Month Payroll Net Revision	Aug	--	--	17k	--
9/4	Change in Private Payrolls	Aug	1375k	--	1462k	--
9/4	Change in Manuf. Payrolls	Aug	75k	--	26k	--
9/4	Unemployment Rate	Aug	9.9%	--	10.2%	--
9/4	Average Hourly Earnings YoY	Aug	--	--	4.8%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.5	20.6	23.1	29.1	26.3	10.7
FH/FN 15y	9.9	13.8	41.1	51.2	19.7	19.2
GN 15y	32.3	26.1	27.1	23.9	23.6	22.1
FH/FN 20y	3.6	20.6	27.6	29.5	30.1	22.2
FH/FN 30y	4.2	16.2	33.8	55.5	63.7	56.4
GN 30y	28.2	20.5	24.2	38.2	38.7	33.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.1	18.5	19.4	28.1	22.9	17.8
FH/FN 15y	16.7	20.2	23.2	27.2	18.8	20.5
GN 15y	27.2	13.8	16.5	16.2	14.4	13.4
FH/FN 20y	23.5	22.4	22.4	21.5	21.0	18.0
FH/FN 30y	15.3	22.7	35.2	38.0	36.5	31.0
GN 30y	12.9	16.8	28.2	27.7	28.2	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.80	(0.20)	106.14	110.72	106.12
Euro	1.18	(0.00)	1.17	1.09	1.11
Dollar Index	92.97	0.12	94.44	99.36	97.64
Major Stock Indices					
Dow Jones	28,082	237	26,470	27,961	25,629
S&P 500	3,424.4	42.4	3,215.6	3,225.9	2,847.1
NASDAQ	11,397.0	267	10,363.2	9,221.3	7,751.8
Commodities					
Gold	1,937.7	(47.3)	1,897.5	1,672.4	1,526.6
Crude Oil	42.42	(0.47)	41.29	51.43	54.17
Natural Gas	2.50	0.16	1.81	1.83	2.15
Wheat	531.0	14.5	539.5	536.3	475.3
Corn	331.0	--	326.3	372.3	359.8

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (21% Fed, 0.75% CoF)	
3 S-Corp TEY Muni (29.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 08/24/2020 10:21AM